

University of Groningen

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Published in:
International Marketing Review

DOI:
[10.1108/02651330410547117](https://doi.org/10.1108/02651330410547117)

IMPORTANT NOTE: You are advised to consult the publisher's version (publisher's PDF) if you wish to cite from it. Please check the document version below.

Document Version
Publisher's PDF, also known as Version of record

Publication date:
2004

[Link to publication in University of Groningen/UMCG research database](#)

Citation for published version (APA):

Tesfom, G., Lutz, C. H. M., & Ghauri, P. N. (2004). Comparing export marketing channels: developed versus developing countries. *International Marketing Review*, 21(4-5), 409-422.
<https://doi.org/10.1108/02651330410547117>

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Comparing export marketing channels: developed versus developing countries

Export
marketing
channels

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Received March 2003
Revised October 2003
Accepted December 2003

Keywords *Distribution channels, Developing countries, Small to medium-sized enterprises, Footwear industry, Transaction costs, Resources*

Abstract *The article presents a qualitative model, derived from the transaction cost and resource dependence theory, to compare the business relationships in the marketing channels between footwear buyers in The Netherlands and Uganda, and their suppliers. The observed business relationships are used to design an export-marketing channel for Eritrean footwear manufacturers looking for new export market opportunities. The findings show that the design of the export marketing channels for Uganda and The Netherlands differs as a result of the transaction costs involved. Taking into account the weak resource base of the Eritrean manufacturers, we conclude that it may be easier for them to enter the Dutch market than the Ugandan market.*

Introduction

Managing distribution systems across nations can provide a competitive edge in global markets, provided that the distribution systems are designed around the needs of the target market. In the literature, several researchers have observed differences between business relationships in marketing channels in developed and developing countries[1]. For example, Batra (1997) concludes that marketing channels in developing countries tend to be long. As financial markets hardly exist, wholesalers and retailers in developing countries face serious financial constraints to realise economies of scale and scope (Levine, 1997). The poor infrastructure hampers the organization of distribution among members in the marketing channel (Tybout, 2000). Kaynak and Kara (2001) observed that in developing countries, manufacturers dominate the channel. According to them, this dominance is based on economic and social power. Last but not least, legal systems and crime prevention are deficient, and corruption is often a serious problem. Hence, the protection of property rights and contract enforcement can be problematic (World Bank, 2001).

The comparative approach of marketing channels in developing and developed countries involves the systematic detection, identification and interpretation of



International Marketing Review
Vol. 21 No. 4/5, 2004
pp. 409-422
© Emerald Group Publishing Limited
0265-1335
DOI 10.1108/02651330410547117

The authors gratefully acknowledge the comments of the editor and the anonymous referees.

similarities and differences between the wholesalers, retailers, agents and buying organizations and their relationships with their suppliers (Boddewyn, 1965). Kaynak and Kara (2001) analyse these differences and similarities in relation to the socioeconomic conditions of developing and developed countries. However, their approach does not identify the drivers at the firm level. Neither a detailed analysis of these relationships nor an effort to explain why these relationships occur is made.

The objective of this paper is to examine the organisation of export-marketing channels for SMEs in developing countries. The key question is to understand how and why the organisation of the channels differs between exports to developed and developing countries. A qualitative model is developed to structure the factors that may explain the differences. Transaction cost theory and resource dependence theory are used to identify the factors in the model.

The starting point of this research was to design an export marketing channel for Eritrean footwear manufacturers looking for export opportunities in The Netherlands and Uganda. In the past, all their export activities were focused on Ethiopia (MIT, 1998). The war between the two countries in May 1998 led to the closure of the Ethiopian market for Eritrean exporters. Despite the fact that many of them have long business experience, only a few are successful in capturing new export markets. The footwear case is interesting as, contrary to most literature that discusses the distribution problem, it analyses the problem from the perspective of manufacturers in a developing country.

Theoretical background

Transaction cost theory is useful to explain the organisational form of exchange between partners in an export marketing channel (Bello and Lohtia, 1995; Heide, 1994; Kim and Nugent, 1997). In the industry under study, exchange is mainly co-ordinated through flexible supply contracts. These contracts specify the obligations for principals and actors for each transaction and can be enforced by a third party (courts). Therefore, the proper unit of analysis for our study is the transaction. Williamson (1991) argued that whether transactions are conducted within the market, internalised within the firm or conducted alternatively by an intermediate form of flexible supply, contracting is determined by the governance mechanism that minimises transaction costs, and ultimately maximises efficiency. He concluded that “asset specificity, uncertainty and frequency” determine the efficient transaction governance form. The greater the uncertainty, the higher the transaction specific investments involved and the stronger the need for vertical integration (Williamson, 1985).

“Asset specificity” refers to investments that are dedicated to a trading relationship in a certain market, which cannot be redeployed to alternative transactions or middlemen without loss in value (Sachdev *et al.*, 1994). This concept is relevant for this case study, as exporters have to be aware of the capital losses they may incur if they are going to redeploy their assets. Asset specificity reduces the threat of contract termination and therefore gives room for opportunistic behaviour. This is also known as the hold-up problem (Besanko *et al.*, 2004). We believe that specific assets are involved in investments made in market research, branding, product design and human assets.

“Uncertainty” refers to “parametric changes” in exogenous forces (such as the market) compounded by unpredictability stemming from individuals’ limited

information processing capabilities, as well as the consequences resulting from the opportunistic motives of other actors (Williamson, 1985). These are relevant issues for footwear manufacturers in developing countries. As we will show, the market is volatile due to changes in fashion. The market is also diverse, as many competitors serve customers with dissimilar buying habits. Moreover, the lead-time and the international environment make it more difficult to enforce contracts and, subsequently, give room for opportunistic behaviour. However, the transaction cost theory displays a bias toward describing opportunistic rather than co-operative relations (Morgan and Ghoshal, 1996). Nooteboom (1999) acknowledges the importance of trust and that a dynamic treatment of ongoing relations allows for the building of trust (reputation). Trust economises on the specification and monitoring of contracts as well as material incentives for co-operation, and reduces uncertainty. Institutions like certification, professional standards and benchmarking can produce trust. Furthermore, contracting may reduce the risk of opportunism, although detailed contracts are expensive and impossible to the extent that contingencies are complex and variable (Nooteboom, 1999).

“Frequency” concerns the frequency and the volume of a transaction, and the search costs involved. With a high transaction frequency, it becomes more attractive for the manufacturer to exploit the marketing channel cost advantage enjoyed by middlemen (Sachdev *et al.*, 1994). Basically, it depends on a cost benefit analysis of the investments made in a tailor-made governance structure whether firms should self-perform export functions.

A shortcoming of transaction cost theory is that it assumes that the market can offer the resources needed to incur a certain investment. Heide and John (1988) observed that some of the predictions of transaction cost theory are simply irrelevant for small firms. For lack of resources, they often cannot consider vertical integration as a feasible alternative. This is certainly true for many manufacturers in developing countries as the financial markets in these countries are highly imperfect (Levine, 1997). The upshot is that most of them are severely constrained by a weak resource base. Therefore it is relevant to complement transaction cost theory with the concepts of resource dependence[2].

Resource dependence theory views the organisation of export marketing channels as a question of how to generate the resources needed to manage the marketing channel functions. This perspective stresses the importance of interdependence between the firms involved in the distribution process (Coughlan *et al.*, 2001). This perspective, developed by Pfeffer and Salancik (1978), focuses on the strategies used by organisations to secure resources and manage the uncertainties arising from the incomplete control over the supply of these resources (e.g. Andaleeb and Anwar, 1996; Mahoney and Pandian, 1992). Weitz and Jap (1995) discuss three forms of organizational control in a channel. If incorporation is impossible due to a lack of resources, they show that contracts and norms are alternative ways to create safeguards. Heide and John (1988) discuss the importance of these safeguards to protect the vulnerable partner against opportunistic behaviour of the powerful partner.

In line with the resource dependence theory we focus on two aspects. First, we analyse the ability of the firms to provide the necessary *organisational capacity* for the export activity, consisting of physical, human and financial resources. Second, we examine how these companies can get access to the lacking resources that constrain

their participation in the international market. However, the involvement of third parties implies *dependence*. Pfeffer and Salancik (1978) distinguish three elements that determine the degree of dependence:

- (1) The importance of the resource for the organisation.
- (2) The discretion over the resource.
- (3) The number of alternatives for the resource.

Heide and John (1988) added a fourth element: the difficulty involved in replacing the actor, expressing the difficulty in replacing incumbent exchange partners due to switching costs. This element is strongly related to asset specificity and transaction cost theory.

Figure 1 summarises how the theoretical concepts mentioned above influence the organisational form of exchange. In particular the contribution of Heide and John

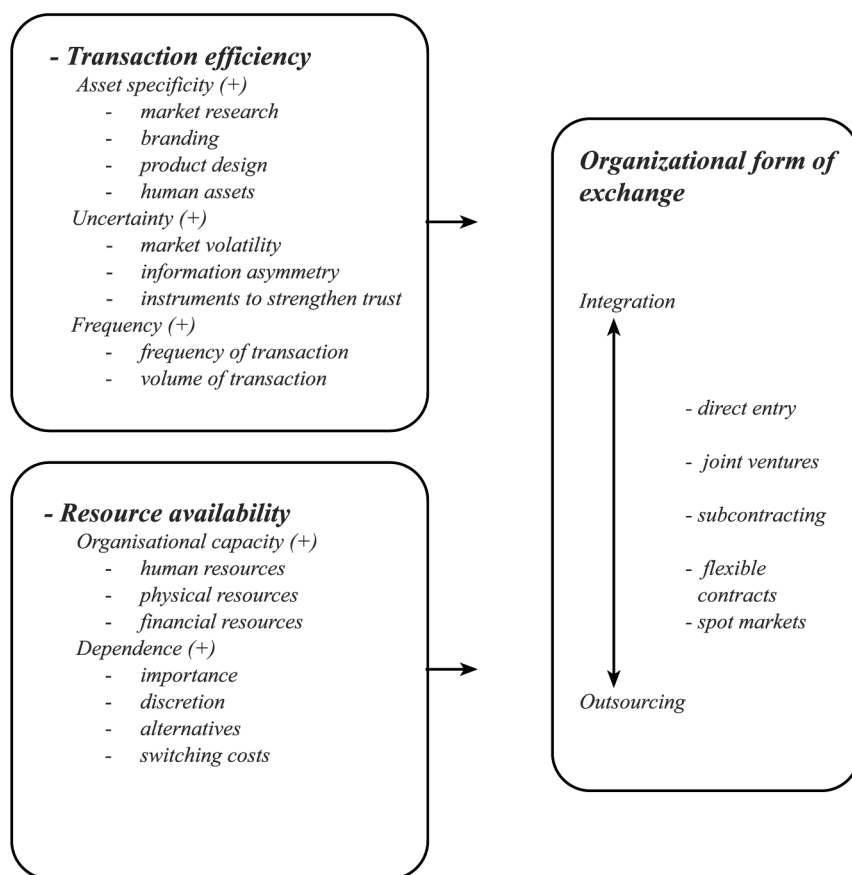


Figure 1.
Transaction governance
structure

Note: Between brackets we note the sign of the expected effect. For example, asset specificity has a positive effect on the level of integration

(1988), stressing the importance of lacking resources and the need for safeguards, is relevant for our industry. Two key propositions are derived from the debate:

- P1. Even if transaction costs are high, Eritrean manufacturers may be obliged to outsource distribution functions due to a lack of access to the necessary resources.
- P2. Under these circumstances, the creation of safeguards is a prerequisite for successful business relationships.

Method

To understand the business relationships we interviewed a number of companies in The Netherlands, Uganda and Eritrea. The data are used to verify the relevance of the conceptual model (Figure 1) and the propositions mentioned above. The case study approach was followed for several reasons. First, we observed that not much information is available about the markets under study. Therefore, case studies are useful to explore the features of this market (Ghauri and Grønhaug, 2002). Second, we recall that the occasion for this study was the need to design an export marketing channel for Eritrean manufacturers. Case studies make it possible to assess all the necessary details for a proper channel design.

For the study, six footwear-manufacturing firms in Eritrea were selected out of a population of 44 firms on the basis of information available at the Ministry of Trade and Industry. Selection depended on two factors: experience with exports and willingness to be interviewed. The interviews were directed at the general managers of the companies. If necessary, additional data were collected from the marketing managers, the production managers and the human resources managers.

The export markets were selected because of their relevance for manufacturers in Eritrea. The interviews in Europe were carried out in The Netherlands. A limited research budget made it difficult to travel to other countries in Europe. However, as a result of the common market, we expect that traders in other European countries adopt similar purchasing and marketing strategies. The interviews in the Great Lakes Region were conducted in Uganda, holding a central place in the Great Lakes Region. This country provides a base for re-exports to Rwanda, the Democratic Republic of Congo, Tanzania and Southern Sudan.

The distributors in The Netherlands were selected on the basis of an inventory made by the Centre for Promotion of Imports from Developing Countries (CBI, 1996). Out of 50 footwear distributors, six firms (two wholesalers, two buying organisations[3] and two retailers) were selected for the case study. The selected organisations are all active in the mass-market segments of the Dutch shoe market. The Kampala Chamber of Commerce provided the list of footwear importers in Uganda. Out of 19 firms, six traders (two wholesalers, two retailers and two members of buying organisations) were selected for the case study. The selection procedure, both in The Netherlands and Uganda, was based on experience with imports and willingness to be interviewed. The interviews in the export markets were conducted with marketing and purchasing managers.

Semi-structured surveys were used for the interviews and were directed by one of the authors. On the basis of the model (Figure 1) and an extensive literature survey (see Ghauri *et al.*, 2003), a set of variables was identified for the interview. Transcripts of all

the interviews were made and served as case material for the analysis. We have drawn our conclusions by matching the evidence patterns in the different cases. The interviews focused on four aspects:

- (1) Analysing the business relationships of the middlemen in The Netherlands and Uganda with their suppliers.
- (2) Identifying the requirements of the Dutch and Ugandan export markets that manufacturers have to fulfil.
- (3) Investigating whether the Eritrean manufacturers are able to fulfil the requirements.
- (4) Identifying the factors that differentiate the organisation of marketing channels in the two markets.

The footwear market in The Netherlands

Specialised domestic wholesalers, buying organisations and retailers dominate the Dutch market. The retailers in The Netherlands market are independent speciality shops, multiple chains, department stores, and some non-store retailers (ambulant and catalogue sellers). Most of the independent speciality shops in The Netherlands belong to one of the four large buying organisations operational in the Dutch market. Yet, the buying organisations interviewed do not have direct business relationships with manufacturers outside Europe. Due to their limited financial and human resources, they prefer to deal with wholesalers and manufacturers in Europe.

The purchasing process in The Netherlands can be classified into three major stages:

- (1) Market research, idea screening, sample design and sample production.
- (2) Exhibiting samples in trade fairs.
- (3) Placing orders, distribution and sales.

First, the wholesaler travels to major markets and trade fairs around the world, mostly during March and April. The objective is to collect information on the next year's summer season (colour, sole, upper, last) and to communicate this to the designer. The designer is generally independent, but has a close business relationship with the wholesale organisation. After the design is ready, the wholesaler travels to Southeast Asia to negotiate with manufacturers. Often the wholesalers use local agents to identify manufacturers. During this phase, manufacturers only produce samples. Design is a key to creating competitive advantage for wholesalers and retailers. Therefore, wholesalers and retailers require exclusivity from manufacturers.

The second stage concerns exhibiting and examining the samples. A large wholesaler may receive up to 1,000 samples from agents and manufacturers in Southeast Asia. A selection of samples is presented at the international trade fair in Italy around mid-June. The international trade fair is held twice a year, in June (supply for next summer season) and January (next winter season). The main objective of participation in this trade fair is to get reactions on samples.

The third stage starts with the display (mid-July) of the selected samples in a centre in The Netherlands. The centre contains 78 shops of wholesalers and buying organisations. After securing orders, the wholesalers contact their manufacturers in Southeast Asia and do the final negotiations (price, delivery dates, etc.). Orders are

placed in early September. Following the order the wholesaler opens a letter of credit to help the manufacturer to get money to purchase the required materials. The footwear has to be shipped at the end of December. The wholesaler starts selling (delivering) the products in late February. Note that first contacts between the manufacturer and the wholesaler are made approximately one year before delivery.

We asked the wholesalers and retailers what their response would be if a manufacturer from Eritrea offered footwear suitable to the European market. The wholesalers and retailers emphasise that they need to have information about the product, the type of machines used, the financial position and the production skills. Moreover, trust and reputation are important in the exchange process. If these conditions are satisfactory, they are ready to give a trial order. Interestingly, the wholesalers interviewed confirmed that efficient bank services, agents and quality inspection services help to build trust between the transacting parties.

The wholesalers and retailers in The Netherlands did not show any interest in concluding subcontracting and joint-venture agreements with the Eritrean manufacturers. They prefer flexible supply contracts as a compromise between reliability and flexibility.

The Ugandan footwear markets

In contrast to The Netherlands, the business relationships between Ugandan wholesalers and retailers and their foreign suppliers (mainly in Dubai) are characterised by “spot-market” transactions. It is short-term oriented, and characterised by cash payments, direct delivery, limited market information and unreliable contract enforcing institutions. Wholesalers do not trust their suppliers to follow the specifications in the contract, nor do suppliers believe that the customers will pay the money in time. The business partners have to meet in order to check for quality and guarantee payments. Most of the buyers are retailers with a small turnover and financial capacity. They travel to the country of manufacture or to a third market (the wholesale market in Dubai) without clear product specifications.

Buying organisations do exist in Uganda, but they have an informal structure and are based on personal relationships. Members of these groups import for each other in order to reduce the major cost component in their import business: the buying costs. Often, these traders are operating in the same outlet in Kampala. The one who is asking his friend or relative to buy for him has to finance the order in advance. They share the transportation and accommodation costs and the arrangement is based on reciprocity.

All the wholesalers and retailers interviewed in Uganda are willing to deal with Eritrean manufacturers provided that the price and the products are acceptable to Ugandan consumers. However, we observed that the size of the average order placed by traders in Uganda is small (less than 100 pairs per transaction). This is a serious barrier for economies of scale, subcontracting and joint-venture opportunities.

Manufacturing in Eritrea

Manufacturing firms in Eritrea have a production capacity of about 5.0-5.5 million pairs with about 60 per cent over-capacity (MIT, 1998). Demand in Eritrea (1.1 million pairs) is insufficient to absorb the supply of domestic firms. The private manufacturing

industry consists of 32 small and 12 medium-sized firms[4]. The latter group used to dominate the Ethiopian market.

The manufacturers attended trade fairs in South Africa, Kenya and Paris between 1998 and 2001. Despite the efforts made, only a few export contracts were concluded. The following export marketing problems are regarded as very important:

- lack of knowledge to locate foreign market opportunities;
- lack of specific information on agents and distributors;
- lack of experience in planning and executing exports;
- lack of management exposure to other cultures and methods of doing business;
- lack of personnel trained and qualified in export marketing; and
- inability to self-finance exports.

This suggests that essential knowledge about export market opportunities is not available in Eritrea. The lack of export market research and information constitutes a significant barrier to exports. Interestingly, learning processes are put forward as a major explanatory variable to understand the export successes of some developing countries (e.g. Korea and Taiwan), and export failures of others (e.g. Sub-Saharan Africa; see Lall, 1998).

Several general managers indicated that co-operation among the manufacturers may solve some of the export barriers the manufacturers are facing. Ghauri *et al.* (2003) focus on forms of horizontal co-operation (networks) needed to facilitate the export process. However, this study focuses on vertical business relationships.

Analysis: integration *vis-à-vis* outsourcing

Earlier, we learned that spot-market transactions are rare in the wholesale market segment in The Netherlands. Moreover, the wholesalers and retailers in The Netherlands and Uganda are not interested in concluding subcontracting and joint-venture agreements with the Eritrean manufacturers. This reduces the number of possibilities to organise the transaction governance structure. If they prefer to outsource the distribution function, they have two possibilities: selling to full-function distributors and agents. In the second case, the title passes “flexible contracts”, when the manufacturer’s agent in the export market sells the footwear to a third party. When they decide to internalise the transaction governance structure, i.e. “direct entry”, they have to open a sales outlet in The Netherlands or Uganda.

Asset specificity

Physical assets do not play a major role in this low-technology industry, as distribution in the European market is organised through distributors. The specific assets mentioned (market research, design, branding) concern mainly marketing activities. The identification of the right design for a specific segment in the market is key for success (fashion, lifestyle, taste, income). The initiative to find the right design for the target market can be taken by the buyer, the supplier or both. When the buyer takes the initiative he conducts market research, prepares the product design, forwards the design to the manufacturer and distributes the product to the intended market. The distribution function also includes branding. The costs involved in these activities are highly “market specific” for the wholesaler. However, they are not “transaction

specific” as the outcome of these investments is used to realise transactions with many business partners (retailers). In contrast, these costs would be highly transaction-specific for manufacturers in developing countries, as selectivity and exclusiveness are pre-conditions set by wholesalers and agents in the export market. In order to circumvent this problem, direct entry may be considered. However, resources are needed to make this feasible. The intermediate solution (agents) is not attractive either, as they will refuse to invest resources in market research if sales (commission) are not guaranteed.

Our findings indicate that wholesalers and retailers in The Netherlands conduct the market research. They design the footwear and forward it to the manufacturers, mainly in Southeast Asia. This distribution of marketing functions suits Eritrean manufacturers as it accommodates the problem of transaction-specific investments and reduces the need for scarce resources necessary for direct entry.

Wholesalers and retailers in Uganda are less specialised. The purchasing initiative starts with a much more restricted market study and without the production of samples and a product design. Formal branding is no major issue in Uganda. Purchasing conditions resemble spot-market transactions. Only past experience and information from colleagues inform Eritrean manufacturers about the market opportunities in Uganda. They have to support all the expenses involved in market research and design. As fashion is less volatile in this market, these costs are lower than the costs involved in product development for the European market. However, access to information about sizes as well as the development of an efficient distribution channel are costly and still important prerequisites for market penetration. This implies that if a local distributor is used, the investments made in market research become transaction-specific and may create room for opportunistic behaviour. Direct entry seems to be the proper entry mode to tackle this problem.

Uncertainty

Our study also reveals that three factors can decrease or increase the level of uncertainty in this business. These are market volatility due to the evolving fashion requirements, lack of information about demand in the particular market and the availability of uncertainty-decreasing instruments (letters of credit, quality inspection institutions, agents, courts of arbitration and litigation).

The manufacturers in Southeast Asia depend on wholesalers and retailers in The Netherlands for design and market information. The flexible contracting relationship facilitates the transfer of proper information and allows the manufacturer and the wholesaler to plan production and distribution. Formal contract enforcing institutions guide the business relationships. Buying organisations guarantee payment to the supplier for any sales contract concluded with one of its members. Quality inspection agents are employed to certify the quality of the goods in the manufacturing site before shipment to The Netherlands. Finally, banks control the availability of the documents necessary for the supplier to claim payment and for the buyer to claim the product.

Parties are looking for uncertainty avoidance. Lawsuits may settle only the direct costs involved in a breach of contract. Taking into account the long lead-time, a breach of contract by a manufacturer (*vis-à-vis* a wholesaler) also implies a breach of contract by a wholesaler (*vis-à-vis* a retailer). Often, the wholesaler in The Netherlands places an order only after he/she secures an order from retailers in The Netherlands. This clearly

shows the interdependencies involved in the channel. Breach of contract involves at least two additional costs: it affects the reputation of the wholesaler vis-à-vis his customers (retailers in The Netherlands) and a new supplier relationship has to be developed to replace the former supplier (switching costs).

In the Ugandan market no information is exchanged between the business partners. Moreover, the unreliability of secondary data and the lack of agents to fill this gap make the uncertainty in the market high. Also, the experience with contract enforcing institutions is rather bleak. Inspection institutions, banks and agents do not play a role in facilitating the export transaction. Consequently, the direct presence of the Eritrean manufacturers in the Ugandan export market is critical to accommodate the uncertainty.

Volume and frequency of transaction

Our market study reveals that wholesalers and retailers in The Netherlands place relatively large orders every six months. Following the transaction cost analysis, this indicates that a strong form of integration is preferred. Moreover, we observed that in the short term the manufacturers may fulfil only a few of these orders as their capacity to produce the required high-quality shoes is rather limited.

In contrast to The Netherlands, orders from Ugandan buyers are small and the trade relationships are not recurrent. This explains why we did not observe Asian producers entering directly into the Ugandan shoe market. Outsourcing the distribution function by appointing agents in Uganda could solve this problem. However, this contradicts the conclusions drawn with regard to uncertainty and asset specificity, and explains why many traders in Uganda travel to the wholesale spot-market in the region (Dubai) to purchase shoes: under the given circumstances spot-markets seem to provide the most attractive governance structure.

Organisational capacity

The basic indicators for the export capacity of the Eritrean firms are ability to finance exports, production capacity (machinery, raw materials, labour), and marketing knowledge. The limited production capacity is already mentioned. Another constraining factor is access to market information. The lack of specialised training institutions aggravates this problem. The scarcity of capital left many firms with outdated machinery. The limited resources explain why the distribution functions for exports to The Netherlands have to be outsourced. In the same vein, we conclude that the absence of reliable wholesalers and retailers in the Ugandan market will make it difficult to enter this market.

Dependence

Outsourcing marketing functions to distributors in Europe implies dependence. The business relationship is expected to be of major importance, as the size of the order will concern a major part of their total production capacity. Alternative customers can be searched for, but switching costs are high as business relationships develop on the basis of trust, reputation and trial orders. Moreover, the discretion power of the manufacturer over the distribution channel is very limited. This can be taken as an argument against outsourcing as it may lead to opportunistic behaviour from the side of the distributor. However, we also observe that this does not imply that there are no

safeguards for the manufacturer. The mutual obligations are specified in flexible supply contracts. Moreover, due to switching costs, distributors also depend on a trustworthy network of manufacturers. The study in The Netherlands showed that the availability of a network of capable and trustworthy manufacturers is perceived as an important asset. Therefore it is better to talk about interdependence, providing the manufacturers some safeguards that balance the dependency *vis-à-vis* the wholesalers. As long as no major asset-specific investments are to be made, the safeguards will suffice to make a flexible supply contract worthwhile.

Conclusion

The differences observed between the export channel designs for Uganda and The Netherlands are summarised in Table I. The analysis in the previous section showed that the prevalence of spot-market transactions in the supply channel for Uganda and the flexible contracts between manufacturers in developing countries and buyers in The Netherlands can be explained by the factors specified in the conceptual model. For Dutch wholesalers this is the best outcome, as these contracts express a trade-off between security (information exchange and recurrent trade relationships) and flexibility (the distributors want to minimise the transaction-specific investments). Knowing that they can find many capable manufacturers in Southeast Asia, there is no reason for them to accept less interesting exchange conditions like subcontracting and joint ventures. For the Ugandan traders, two reasons explain why they are not interested in flexible supply contracts, subcontracting and joint venture agreements. Their resource base is too weak to allow for these investments and the quantities involved are too small to justify the choice for a fixed partner.

Considering the transaction costs involved, outsourcing the marketing functions in The Netherlands is the best solution for the Eritrean manufacturers. Entry to the Ugandan market is difficult as direct investments are needed to serve the buyers in Kampala. Due to the small volumes involved, it does not seem to be feasible to invite middlemen from Uganda to buy directly in Eritrea. A solution for this dilemma may be the opening of an intermediate sales outlet (or representative) on the wholesale market in Dubai. Taking into account the resource constraints of the manufacturers in Eritrea we draw the conclusion that entry to the European market may be easier than entry to the Ugandan market.

With regard to the differences observed between marketing channels in developing and developed countries, we note that the availability of proper institutions facilitates the exchange process and makes a difference in organising a marketing channel. However, contrary to the statement of Batra (1997), we observed that the marketing channel design for the Ugandan market is shorter than the design for the Dutch market. In Uganda, a lack of institutions increases uncertainty and, consequently, encourages the integration of distribution functions. Moreover, contrary to Kaynak and Kara (2001), we did not see any evidence for their conclusion that the manufacturers are more powerful than the wholesalers and retailers in Uganda or The Netherlands. Our conceptual model explains why their conclusions are not in line with the conditions of the market under study.

The conceptual model allows us to understand existing exchange relationships in the marketing channel and to identify the differences in channel design for the two potential export markets. The evaluation of asset specificity, uncertainty and

Factors that influence the organizational form of exchange from the perspective of the Eritrean manufacturers

The relationship with buyers in:
The Netherlands Uganda

Asset specificity

Market research
Product design
Branding

Foreign distributors should assume these functions as it solves the problem of asset specificity

In order to solve the problem of asset specificity, direct entry is needed

Uncertainties

Market volatility
Asymmetric information
Trust and contract enforcing institutions

Flexible contracting is a good compromise to reduce uncertainty: it allows for planning and flexibility

Due to a lack of contract enforcing institutions, direct entry is needed

Volume and frequency of transaction

Volume of transaction
Frequency of transaction

Flexible contracting is the proper instrument to accommodate the relatively large orders every season

The small volumes restrict possibilities for vertical integration and direct entry. A wholesale spot-market may be the best alternative

Capacity of Eritrean manufacturers to fulfil requirements

Financial resource
Production knowledge
Marketing knowledge

Lack of resources obliges the firms to look for partners in the distribution process and excludes the option of direct entry

Lack of resources obliges the firms to look for partners in the distribution process and excludes the option of direct entry

Dependence of Eritrean manufacturers

Importance
Alternatives
Switching cost

Flexible contracts lead to dependence. Safeguards resulting from switching costs, reputation and the long order process, protect the manufacturer against opportunism

If trade is taking place on a wholesale spot-market dependence will become a minor issue

Table I.
Comparison of the two markets based on the factors that determine the governance structure

Recommended form of exchange

Flexible contracts

Participation in the wholesale spot-market in Dubai

frequency indicate that integrating the marketing distribution functions is the best choice. However, the firm's resources may make such investments impossible. We conclude that the choice of an efficient transaction governance structure not only depends on factors derived from transaction cost theory but also on factors derived from resource dependence theory. This underlines the relevance of our first proposition. With regard to the second proposition, we observed that dependence is a major issue. However, we also noted that safeguards exist due to the interdependence between manufacturers and distributors. In particular, the long lead-time in the integrated marketing channel results in interdependencies and provides the manufacturers an instrument to balance the dependency *vis-à-vis* the wholesalers.

As long as only minor asset specific investments are to be made, flexible contracts can be worthwhile despite the dependence.

Notes

1. Developing countries are low and middle-income countries having a GNP per capita lower than \$9,265 (World Bank, 2001).
2. Nowadays the resource dependence theory is less quoted. Many studies prefer to apply the resource-based theory, stressing the importance of capabilities and the difficulty to imitate resources (Penrose, 1959; Teece, 1982; Mowery and Oxley, 1998). In this paper we prefer the resource dependence theory, as we deal with a highly competitive industry in which the lack of resources for manufacturers does not primarily result from tacit information and difficulty of imitation, but from a lack of access to human and financial resources.
3. Buying organisations are associations of footwear retailers that place orders on behalf of their members and facilitate the financial aspects of the transaction.
4. We followed the UNIDO classification for developing countries that considers ten or more persons as the dividing line between small and medium-sized enterprises (Ceglie and Dini, 1999).

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